



Rating Action: Moody's assigns Aa2 to Energy Northwest's (WA) Project 1, Columbia Generating Station, and Project 3 electric revenue refunding bonds; Outlook is positive

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Approximately \$518 million of debt affected

New York, April 20, 2023 – Moody's Investors Service has assigned Aa2 ratings to Energy Northwest, WA's \$16.3 million of Project 1 Electric Revenue Refunding Bonds, Series 2023-A, \$428.8 million of Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2023-A, and \$73.1 million of Project 3 Electric Revenue Refunding Bonds, Series 2023-A. The rating outlook for Project 1, CGS, and Project 3 is positive.

RATINGS RATIONALE

The Aa2 rating assignment on Energy Northwest, WA's (ENW's) Project 1, CGS, and Project 3's revenue refunding bonds considers Bonneville Power Administration's (BPA) contractual obligation to pay including debt service under each project's net billing agreement, BPA's long history of meeting its contractual obligations, and BPA's Aa2 issuer rating.

The BPA's Aa2 rating considers its strongly positioned and expansive network of hydro and transmission assets, access to competitive power, long-term power supply contracts with customers through 2028 and credit supportive attributes as a line agency of the Government of the United States of America (US: Aaa stable). The borrowing ability under the US Treasury line and the ability to defer debt service payments to the US Treasury are two of the most critical support features from the US government. Recently, the benefits of BPA's close linkages with the US federal government was further highlighted given the approximately 2,000 wildfire related claims totaling an estimated \$2 billion. These claims will be resolved through the Federal Tort Claims Act and any payments made will be from the United States Judgment Fund, not BPA. We understand BPA does not need to reimburse the federal government for these payments.

The credit profile also acknowledges credit challenges including hydrology and wholesale market price risk, a 'regulated utility' like ratemaking process, environmental burdens, and typically low consolidated financial metrics for the rating. Hydrology and wholesale market prices remain the greatest volatility drivers to BPA's financial performance.

For FY 2022, BPA had an exceptional year with reserves for risk increasing by over 83% to \$1.51 billion compared to \$825 million in the prior year and net revenue increasing to \$2.18 billion, which is around 36% higher than FY2021 and around 59% higher than its 10 year. A sharp increase to power prices partly and above average hydrology at around 103% of the long term average were the primary contributors to BPA unusually strong financial performance. Since BPA's reserves are well above its maximum goals, BPA has committed to utilize \$500 million of which \$350 million would be credited back to power customers in FY2023, \$50 million will be used to pay for accelerated fish and wildlife expenses, and \$100 million will be used to reduce debt, fund capital spending, support liquidity or increase the probability of a reserve distribution

at the end of FY2023. Unlike FY2022, regional hydrology for FY2023 is expected to be well below average at around 79% although power prices remain high. According to BPA forecast provided in February 2023, they expect reserves for risk to decline to around \$1 billion at the end of FY2023. Looking forward, we expect BPA's reserves for risk to remain around \$1 billion given its proposed 2024-2025 rates that reflects BPA's cost recovery approach that will be finalized prior to the start of the FY2024 period on October 1, 2023.

BPA's positive outlook considers credit supportive developments including a \$10 billion increase to BPA's borrowing line with the US Treasury and incorporation of credit supportive features in BPA's updated financial plans including deleveraging over time. That said, the US government has reached its debt limit on January 19, 2023 and has taken extraordinary measures to allow the US government to continue paying its obligations. We expect the US Treasury will exhaust its resources sometime in August. While we currently incorporate the baseline expectation that an agreement addressing the debt limit will be made prior to the US Treasury exhausting its resources, a failure to do so could have material consequences for BPA such as limiting its ability to borrow under the US Treasury line or limiting its ability to access the Bonneville Fund, which is held by the US Treasury, to make cash payments. We expect to resolve BPA's outlook once there is greater clarity to the US debt limit.

RATING OUTLOOK

BPA's positive outlook considers BPA's increased borrowing authority under the US treasury line, BPA credit supportive financial policies including deleveraging over time, and our baseline expectations that the US government will reach an agreement on raising or suspending the debt limit. The outlook on Project 1, CGS, and Project 3 reflects the positive outlook on BPA.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

BPA's rating is likely to be upgraded if the US government resolves its debt limit and BPA maintains or expands its credit supportive goals and policies under its financial policies.

The rating on BPA supported bonds could be upgraded if BPA is upgraded.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

Given the positive outlook, a downgrade is not likely. However, BPA's rating could be downgraded if the US government is unable to resolve its debt limit on a timely basis or if BPA's ability to access its funds or availability under the US Treasury line is materially constrained.

The ratings on BPA supported bonds could be downgraded if BPA is downgraded or if the underlying contractual arrangement is violated.

LEGAL SECURITY

Project 1, CGS, and Project 3 revenue bonds are secured by a pledge of specific project revenues primarily sourced under tri-party net billing agreements with BPA and project participants. The net billing agreement obligates the project participants, consisting of numerous municipal and cooperative electric utilities, to pay ENW their proportionate share of the project's annual costs, including debt service, irrespective of whether the project is operable or terminated. BPA, in turn, is obligated to pay (or credit) the participants identical amounts by reducing the amounts the participants owe for power and service purchased from BPA under their power-sales agreements. BPA has also agreed, in the event of any insufficient payment by a participant, to pay the amount due in cash directly to the project. In 2006, ENW and BPA adopted a voluntary,

direct pay agreement whereby BPA directly pays ENW for amounts due under the net billing agreements. There are no debt service reserves.

USE OF PROCEEDS

Proceeds from Project 1 and Project 3 revenue bonds will be used to refund maturing bonds to extend maturities, refinance a short term note, and pay a portion of interest due. CGS will use approximately \$337 million to extend debt maturities and pay interest with the remainder of its net proceeds used for capital spending. The debt maturity extensions are according to BPA's Regional Cooperation Debt 2 program.

PROFILE

BPA was created in 1937 by an act of the US Congress and is one of four regional power marketing agencies within the US Department of Energy. BPA is primarily responsible for 22 GW of federally owned hydro generation and 15,000 miles of electric transmission assets in the US Pacific Northwest spanning all or parts of eight states. The US Army Corps of Engineers and the Bureau of Reclamation own and operate the hydro projects. BPA's obligations are not backed by the full faith and credit of the US government and its cash payments are limited to funds available in the Bonneville Fund.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at <https://ratings.moodys.com/api/rmc-documents/398041>. An additional methodology used in these ratings was US Municipal Joint Action Agencies published in December 2022 and available at <https://ratings.moodys.com/api/rmc-documents/396803>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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